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Weekly Stock Market Commentary

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During the outgoing week, the stock market carried forward the positive momentum and rose marginally by 0.9% (up 418 points) on a week on week basis. Most of the sectors, especially the defensive sectors, such as Banks, Power, Pharma, Oil & Gas Exploration yielded positive return during the week. In terms of index contribution, Banking sector led the gains, as investors looked forward to healthy corporate results along with improved dividend payouts.

Key development during the past week was the passing of two key bills that were the prior conditions and key hurdles in meeting the IMF demands for the resumption of the program. Despite fiery resistance by from the opposition parties, the government was able to pass the SBP autonomy bill and the Finance Supplementary bill aiming to raise around PKR 360 billion taxes, where PKR 335 billion worth of sales tax exemptions have been withdrawn. On one hand, it would keep the fiscal side under control, and will likely lead to slowdown in consumption of luxury/unnecessary goods and save some amount on import front. On the other hand, it will keep the inflation, which has already entered double digits, at elevated levels during the first half of CY22. Remittance numbers also came in during the week, for Dec-21, which stood at USD 2.5 billion, up marginally by USD 61 million / USD 83 million on a month on month and on a year on year basis. This takes the 1HFY22 total remittances to USD 15.8 billion, up from USD 14.2 billion, with a yearly double-digit growth of around 11%. Auto numbers were also released for the month of Dec-21, in which highest ever monthly sales was recorded for the month of December, taking CY21 auto sales to 237k units, growing by a significant 91% on a yearly basis. If the non-PAMA sales is also included, the year has ended with the highest ever sales in any year.

In terms of activity of the market participants, Banks/DFIs and Individuals remained the main buyers in equities as they increased their positions by USD 7 million and USD 3 million, respectively. On the other hand, main sellers in the market were Mutual Funds and Companies, with net selling amounting to around USD 10 million and USD 2 million, respectively.

In terms of equity market outlook, we expect market to provide around 20% return in CY22. The first key trigger would be the resumption of IMF program. IMF board is expected to meet towards the end of the month to consider the case of Pakistan. Having met key prior conditions, IMF is expected to approve the revival of the EFF and approve the loan tranche of USD 1 billion. It will also pave the way for other multilateral flows which will shore up the reserves and lend stability to PKR. The results season is also around the corner where we expect continuation of robust corporate earnings growth as most high-frequency indicators - including automobile sales, POL (petroleum, oil and lubricants) sales, and electricity generation – highlight the solid positioning of the economy. A key concern has been the elevated Current Account Deficit (CAD) which is mainly due some one-off TERF related imports, vaccine imports and record high commodity prices. The softening of the commodity cycle will help in this regard and as and when vaccine and TERF related imports subside, we will witness improvement on this front too. Government & central bank have been proactive this time to bring stability and preserve growth. Several policy measures by central bank and government aim to cool down domestic demand that will help arrest CAD and ease off inflationary pressures going forward.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 5.8x versus 10-year average of 8.3x. The market also offers a healthy 5.7% dividend yield. The recent sell-off has sent the market valuations near to levels witnessed only in crisis eras. Therefore, given a strong investment case for equities, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.